How to Build an Extended Warranty Program

A 10-Step Framework for Program Design, Compliance, and Financial Backing

Upward Risk Management

STEP 1

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Define the Customer Promise

An extended warranty program starts with the promise being sold. The company must clearly define whether the customer is buying repair, replacement, maintenance, reimbursement, service access, performance support, or another post-sale benefit.

REPAIR
Fix the product to restore performance

REPLACEMENT
Provide a new or refurbished product

MAINTENANCE
Prevent issues through scheduled service

REIMBURSEMENT
Refund eligible costs or expenses

SERVICE ACCESS
Provide support, help, or access to resources

CORE QUESTIONS

1. What exactly is covered?
2. What failures, costs, or events are excluded?
3. Is the customer receiving repair, replacement, reimbursement, or service?

WHY IT MATTERS

The customer promise drives the contract wording, claims process, pricing model, state classification, and insurance structure. If the promise is unclear, the program will be difficult to price, administer, insure, or scale.

KEY TAKEAWAY

A clear promise is the foundation of the entire warranty program.

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STEP 2

Classify the Product

The program's label is not enough. A product marketed as an extended warranty may be treated as a service contract, protection plan, home warranty, vehicle service contract, maintenance agreement, customer guarantee, or another regulated structure.

CORE QUESTIONS

- Is the promise included with the product or sold for a separate fee?
- Is the program a warranty, service contract, protection plan, or guarantee?
- Are consumer, commercial, home, vehicle, or equipment rules involved?

WHY IT MATTERS

Classification affects state registration, contract disclosures, financial responsibility, cancellation rights, refund rules, reimbursement insurance, and whether a CLIP or SCRIP structure may be needed.

KEY TAKEAWAY Classification determines the regulatory and financial path of the program.

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STEP 3

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Choose the Provider or Obligor

The provider or obligor is the party that owns the customer-facing promise. This may be the manufacturer, seller, third-party provider, insurer, program company, or another entity.

WHERE THE OBLIGATION LIVES

The provider or obligor is legally and financially responsible to the customer for performing under the warranty or service contract.

CORE QUESTIONS

- Who is legally and financially responsible to the customer?
- Is the seller also the obligor, or is a third-party obligor being used?
- What happens if the obligor cannot perform?

WHY IT MATTERS

The obligor decision affects contract wording, regulatory filings, claims responsibility, reimbursement insurance, balance sheet exposure, retailer requirements, and customer protection.

POTENTIAL OBLIGOR OPTIONS

- Manufacturer
- Seller / Retailer
- Third-Party Provider
- Insurer
- Program Company / SPV
- Other Entity

KEY TAKEAWAY

The right obligor structure aligns responsibility, claims handling, and financial support.

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STEP 4

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Select the Administrator

The administrator operates the warranty program. It may handle contract issuance, claims intake, service coordination, cancellations, refunds, customer service, data, and reporting.

CORE QUESTIONS

1. Who receives and adjudicates claims?
2. Who manages records, cancellations, refunds, and customer communication?
3. Who reports claims and loss data to the provider, insurer, or reinsurer?

WHY IT MATTERS

Administration is operational control, not necessarily financial responsibility. A good administrator can run the process, but it does not replace the need to identify the obligor or financially back the promise.

ADMINISTRATOR WORKFLOW

1. **CONTRACT ISSUANCE** — Issue and deliver the warranty or service contract.
2. **CLAIMS INTAKE** — Receive claims and collect required information.
3. **SERVICE COORDINATION** — Authorize and coordinate repairs, replacements, or services.
4. **CANCELLATIONS / REFUNDS** — Process cancellations and issue refunds as applicable.
5. **CUSTOMER SERVICE** — Respond to inquiries and support customers.
6. **DATA / REPORTING** — Maintain records and report claims and loss data to stakeholders.

KEY TAKEAWAY

The administrator runs the process, but it does not replace the obligor or financial backing.

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STEP 5

Design the Coverage Terms

Coverage terms define what the customer receives and what the program must pay for. Small wording choices can materially change claim frequency, severity, customer expectations, and insurer appetite.

CORE QUESTIONS

1. What products, components, failures, and costs are covered?
2. What exclusions, limits, deductibles, waiting periods, and terms apply?
3. How are repair, replacement, reimbursement, and cancellation handled?

WHY IT MATTERS

Coverage terms determine the economics of the program. They also need to match the administrator's capabilities, state requirements, service network, pricing model, and insurance or reimbursement structure.

COVERAGE ARCHITECTURE

KEY TAKEAWAY | Coverage wording drives claims outcomes, economics, and insurability.

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STEP 6

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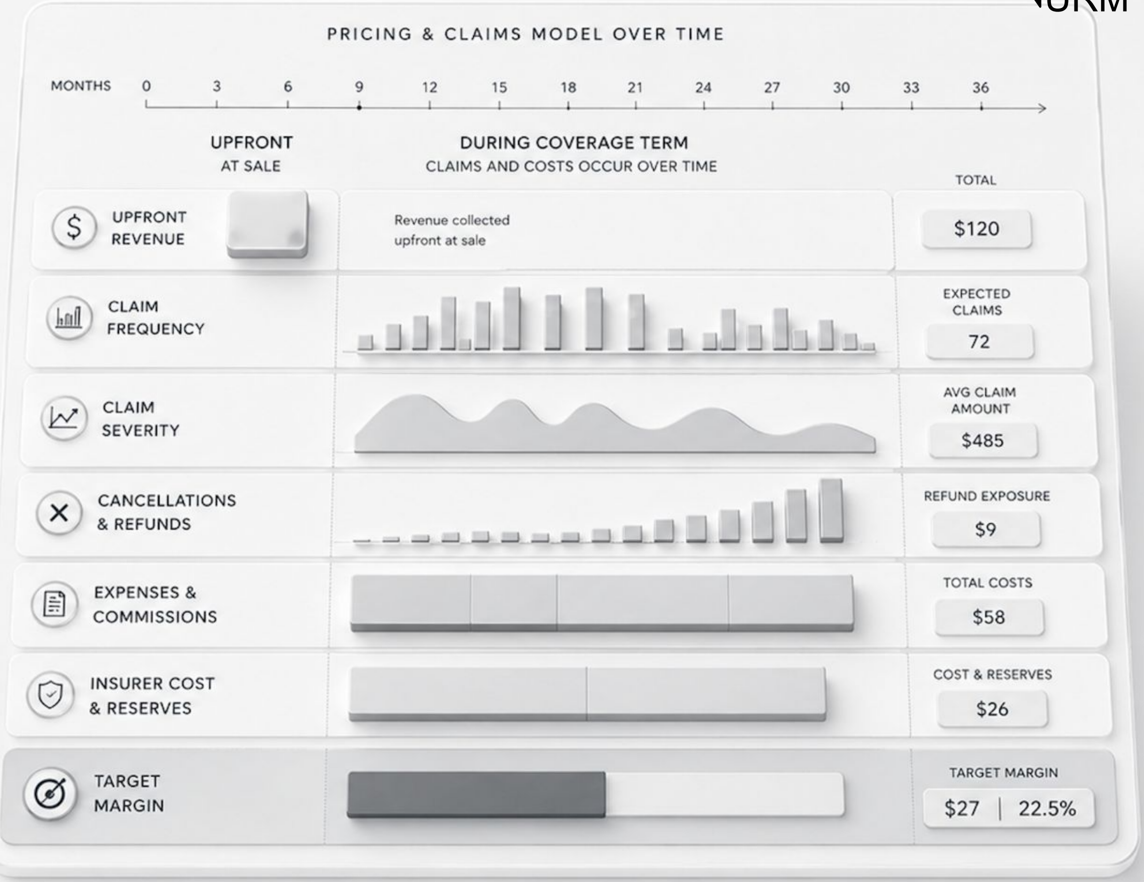
Build the Pricing and Claims Model

An extended warranty program should be priced around the expected cost of the promise, not just what the customer is willing to pay. The model should include claims, expenses, commissions, cancellations, insurer cost, reserves, and target margin.



CORE QUESTIONS

1. What are expected claim frequency and severity?
2. What are the term length, claim lag, cancellation rate, and refund exposure?
3. Does the customer price support claims, expenses, commissions, and margin?

WHY IT MATTERS

Warranty revenue is often collected upfront, while claims may occur months or years later. A program can look profitable at sale and still fail if claims, service costs, or cancellation assumptions are wrong.

KEY TAKEAWAY Upfront sales do not guarantee long-term profitability.

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STEP 7

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Map State Requirements

Warranty and service contract rules vary by state. A national program may need to address registration, licensing, contract disclosures, reimbursement insurance, reserve requirements, net worth alternatives, and administrator rules.

CORE QUESTIONS

1. In which states will the program be sold?
2. What does each state call the product or financial backing structure?
3. Are reimbursement insurance, reserves, net worth, filings, or registrations required?

California
Service contract reimbursement insurance policy and obligor concepts

Texas
Contractual Liability Reimbursement Policy language

New Jersey
Reimbursement insurance and faithful performance

New York
Service contract reimbursement insurance policy concepts

Florida
Distinct service warranty association and home warranty frameworks

Washington
Service contract provider, reimbursement insurance, and CLIP-related concepts

Pennsylvania
Service contract exclusion approach

WHY IT MATTERS

State terminology changes. Texas uses Contractual Liability Reimbursement Policy language. California and New York use service contract reimbursement insurance policy concepts. New Jersey focuses on reimbursement insurance and faithful performance. The structure should be built for the actual state footprint.

A program that works in one state may need changes before it can be sold nationally.

KEY TAKEAWAY Build the structure for the states where the program will actually be sold.

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STEP 8

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Choose the Financial Backing Structure

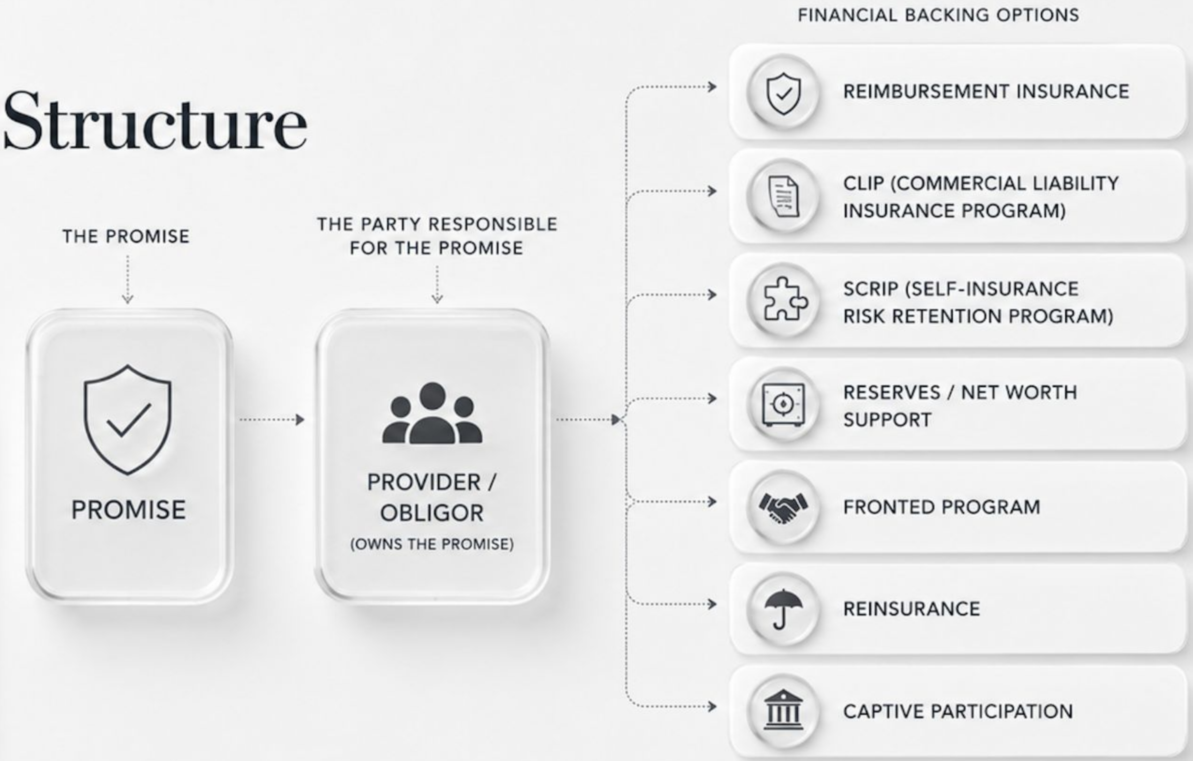
The warranty is the promise. The financial backing is what supports the promise if claims occur. This may involve reimbursement insurance, CLIP, SCRIP, reserves, net worth support, fronting, reinsurance, or captive participation.

CORE QUESTIONS

1. Who pays claims first?
2. Who reimburses the provider or obligor?
3. Is risk transferred, retained, shared, fronted, or financed through a captive?

WHY IT MATTERS

Ordinary business insurance is not the same as warranty reimbursement insurance or a CLIP-backed structure. The backing must match the contract obligation, state requirements, claims process, and long-term economics.



KEY TAKEAWAY

Financial backing must match the actual obligation and the way claims will be paid.

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STEP 9

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Build Claims and Service Operations

Claims are where the warranty program becomes real. The company needs a process for claim submission, coverage review, repair approval, vendor payment, customer reimbursement, escalation, fraud control, and reporting.

CORE QUESTIONS

1. How does the customer submit a claim?
2. Who approves, denies, pays, or escalates the claim?
3. Who performs repairs or replacements, and how are vendors paid?

1. **CUSTOMER CLAIM** — Customer contacts support and submits claim with required documentation.
2. **INTAKE** — Claim is logged, information is validated, and coverage is confirmed.
3. **REVIEW** — Administrator reviews claim against contract terms, coverage, and exclusions.
4. **APPROVAL / DENIAL** — Claim is approved or denied. Customer is notified with reason and next steps.
5. **REPAIR OR REPLACEMENT** — Authorized repair or replacement is performed through approved service channels.
6. **VENDOR PAYMENT OR CUSTOMER REIMBURSEMENT** — Vendor is paid directly or customer is reimbursed per contract terms.
7. **ESCALATION / FRAUD CONTROL** — Exceptions are escalated. Fraud checks and controls are applied as needed.
8. **REPORTING** — Claim data is reported for experience, compliance, and decision making.

WHY IT MATTERS

Poor claims operations can create customer complaints, regulatory issues, retailer friction, and bad loss data. The claims process needs to align with the contract, administrator, service network, provider, and financial backing structure.

KEY TAKEAWAY

Claims operations are where the customer experience and loss performance meet.

STEP 10

Track Performance and Optimize

A warranty program should be monitored like an underwriting portfolio. The company should track attachment rate, claim frequency, claim severity, loss ratio, cancellation rate, service cost, customer outcomes, and margin by product, channel, and state.

CORE QUESTIONS

1. Is the program profitable by product, channel, and state?
2. Are claims developing as expected?
3. Does the data support better pricing, coverage terms, insurance terms, or captive participation?

WHY IT MATTERS

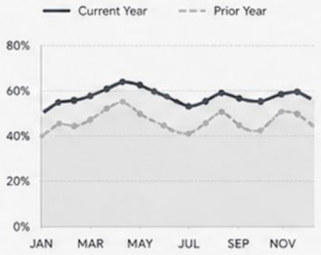
The data is the long-term value of the program. It can improve pricing, support underwriting, reveal product defects, reduce fraud, strengthen service quality, and eventually justify a more advanced risk structure such as a captive or fronted program.

WARRANTY PROGRAM PERFORMANCE DASHBOARD

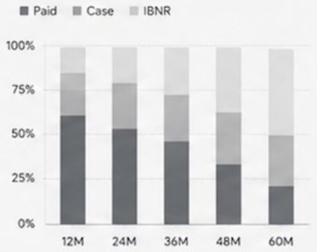
Timeframe: YTD
Compare To: Prior Year

		vs Prior Year
ATTACHMENT RATE	28.6%	↑ +2.4 pp vs Prior Year
CLAIM FREQUENCY	0.52	↓ -6.1% vs Prior Year
AVERAGE SEVERITY	$812	↑ +4.3% vs Prior Year
LOSS RATIO	61.3%	↓ -3.8 pp vs Prior Year
CANCELLATION RATE	7.1%	↓ -0.9 pp vs Prior Year
SERVICE COST PER CLAIM	$196	↓ -5.7% vs Prior Year
CUSTOMER OUTCOMES (NPS)	72	↑ +5 pts vs Prior Year
MARGIN	18.7%	↑ +2.6 pp vs Prior Year

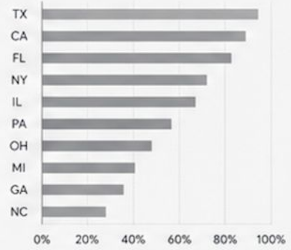
LOSS RATIO TREND



CLAIMS DEVELOPMENT



LOSS RATIO BY STATE (TOP 10)



VIEW BY

- Product Line
- Sales Channel
- State
- Time

KEY TAKEAWAY

The best programs improve over time because they measure, learn, and refine.